

Northair
mines Ltd. (n.p.l.)

ANNUAL REPORT '79

Northair mines Ltd. (n.p.l.)

DIRECTORS

D. A. McLeod
J. E. Millette
V. B. Humphrey
A. H. Manifold

OFFICERS

D. A. McLeod, President
J. E. Millette, Vice President
M. Syniuk, Secretary
M. P. Dickson, P. Eng.,
Vice Pres. of Operations

HEAD OFFICE

#333-885 Dunsmuir St.
Vancouver, B.C.
V6C 1N5

OPERATING

H. Skoglund, Resident Manager
W. M. Ash, P. Eng., Manager of Engineering
J. G. B. Michell, P. Eng., Chief Engineer
P. A. Bouma, Mill Superintendent
H. R. Scheerschmidt, Plant Superintendent

MINE OFFICE

P.O. Box 2029
Squamish, B.C.
V0N 3G0

SOLICITORS

Boughton & Co.
#600 - 890 W. Pender St.
Vancouver, B.C.

RECORDS OFFICE

#600 - 890 W. Pender St.
Vancouver, B.C.

AUDITORS

Smith, Flynn, Staley,
Chartered Accountants
#225 - 4299 Canada Way
Burnaby, B.C.

BANKERS

The Royal Bank of Canada
Main Branch - Royal Centre
1025 W. Georgia St.
Vancouver, B.C.

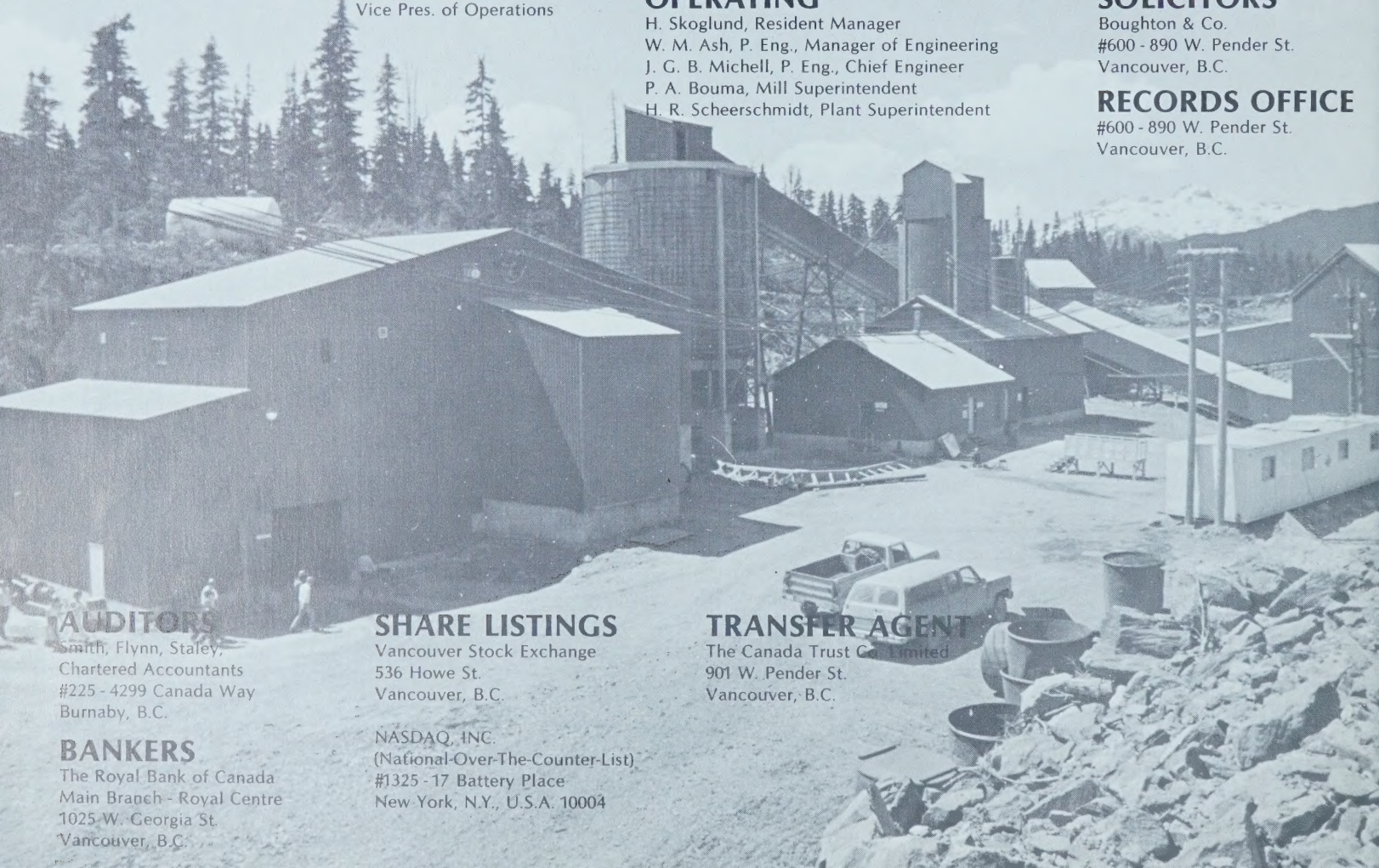
SHARE LISTINGS

Vancouver Stock Exchange
536 Howe St.
Vancouver, B.C.

NASDAQ, INC.
(National-Over-The-Counter-List)
#1325 - 17 Battery Place
New York, N.Y., U.S.A. 10004

TRANSFER AGENT

The Canada Trust Co. Limited
901 W. Pender St.
Vancouver, B.C.



President's Message to Shareholders

The logo for Northair, featuring the word "Northair" in a stylized, italicized font. The "N" is large and has a vertical line through it, and the "a" is also stylized. The logo is in a dark blue or black color.

The past year has been the most exciting and rewarding in your company's history. On January 12, 1979 the final debt repayment was accomplished. Since that time working capital has been increased to approximately the \$2,000,000 level considered reasonable for optimum operating purposes. As a reward to the shareholders of the company and in recognition to the level of success the company has achieved, directors on May 19th declared an initial dividend of 12½¢ Cdn, per common share plus 5¢ extra for a 17½¢ per share total. Both dividends are payable June 15th, to shareholders of record June 1, 1979.

The mine and plant have been operating smoothly over the past year and continuation of this efficient operation can be confidently forecast through 1980 and beyond. The ore to feed the concentrator is currently being drawn 30% from the 2800 level and the balance from the 3250 and 3500 levels. The tons of ore drawn from the 2800 level will increase to in excess of 50% by year end.

Recent work has developed sufficient ore above the 2800 level for 2½ years operation. M. P. Dickson, Vice President of Operations states in his report (printed elsewhere in this booklet) that there are numerous targets, both underground and on surface, which have the potential to extend these reserves. Currently there are three diamond drill machines adding to reserves. These targets are in addition to the very substantial poten-

tial for continued ore development in the structures below the 2800 level. The strength of the mine geology creates tremendous confidence for the development of many years of ore reserves as work progresses.

The Accelerated Mineral Development Program provided by the B.C. Social Credit Government permitted the company to add some 20 miners to the operation to speed the development program on the ore above the 2800 level. The program is characterized by its speed of action and minimum of red tape. It is an outstanding credit to the Department of Mines and the Government.

To insure a high degree of corporate flexibility in future acquisitions and exploration agreements, none of which is now under consideration; shareholders are being asked to approve an increase in the number of authorized shares from 6,000,000 to 8,000,000. It should be emphasised that there is nothing now under consideration which might call for the issue or sale of any of these new shares.

During the year 121,000 shares were issued through the exercise of share purchase warrants at \$2.00 per share. There remains 179,000 warrants outstanding.

Your company has been able to take advantage of its experience and management team to expand the future for your company by participating in four new mining projects as follows:

1. BULLY HILL, REDDING CALIFORNIA

Drill indicated and probable ore reserves of 485,000 tons grading 0.20 oz. gold per ton, 4.5 oz. silver per ton, 2.5% copper, 4.0% lead and 10% zinc have been estimated on the property on the basis of exploration work in the 50's. The Company has a 97% interest in a 20 year lease on the property from SCM Corp. of New York, U.S.A. A small budget program to confirm and extend these reserves will be undertaken in the next few years prior to commencing a program of underground development and diamond drilling to lead to a feasibility study.

2. SCOTTIE GOLD MINES LTD., 45 km north of Stewart, B.C.

Proven and probable ore reserves of 110,000 tons grading 0.874 oz. gold per ton, undiluted and uncut, have been established on the property. Development work and diamond drilling to confirm and extend these reserves is now underway toward the objective of 125 tons per day production during 1980. Scottie Gold Mines has arranged a public financing to provide \$880,000 for the first phase of this work.

Your company holds a management contract on the property and the right of first refusal to provide any future financing as well as the right to acquire a significant share position in Scottie Gold Mines Ltd. under certain circumstances.

3. CONSOLIDATED SILVER RIDGE MINES LTD. near Kiniskan Lake, 200 km north east of Stewart, B.C.

Anomalous gold geochemical reading has been obtained over an area where two long ore grade gold diamond drill intersections were cut several years ago. The work now underway is the drilling of several holes to confirm and extend these results. Early indications are of a very large tonnage gold potential. First assay results are expected in late June. Consolidated Silver Ridge Mines Ltd. has completed a public financing to provide \$600,000 for this phase of exploration. Your company holds a management contract on the property, the right of first refusal to provide any future financing and owns 70,000 shares plus an option to purchase a further 70,000 shares at 97¢ each.

4. NEWHAWK GOLD MINES LTD. near Kiniskan Lake, 200 km north of Stewart, B.C.

Ten known narrow high grade gold veins have been subject to preliminary examination, including mapping, sampling and initial soil sampling. The recommended program to commence in July includes underground, crosscut, drifting and diamond drilling to establish the extent of the veins and at the same time to explore the large tonnage lower grade potential. Your company holds a man-

agement contract on this property and the right of first refusal on any future financing. In addition the company has the right to acquire a significant share position in Newhawk under certain circumstances.

With gold and silver prices at all time record new highs and the bulk of the creditable gold silver experts predicting further substantial increases from these levels in the near future it is an easy time to say that the outlook for the company over the next few years is excellent. The new and expanding ore reserves and the participation in the outside projects provide a base for a sound and rewarding future.

In conclusion I wish to thank the many people involved who have contributed to the success of your company, the directors, the mine staff, consultants, engineers, and the excellent work force of miners, millmen and office staff.

SUBMITTED ON BEHALF OF THE
BOARD OF DIRECTORS

Donald A. McLeod
President

May 22, 1979

Report on Operations for Year Ended 1979

Northair

Total revenue from production was \$9,584,137 after smelting, freight, and handling charges. This was derived from treatment of 103,218 tons of ore grading 0.35 oz. gold per ton, 1.97 oz. silver per ton, 1.22% lead and 1.88% zinc. Included in this amount is \$62,800 for cadmium and copper.

METAL RECOVERY STATISTICS

	Fourth Quarter ended Feb. 28, 1979	Period ended Feb. 28, 1979	Period ended Feb. 28, 1978
Tons Milled	24,087	103,218	103,510
Gold Recovery	93.28%	93.15%	89.34%
Silver Recovery	84.12%	85.63%	79.58%
Lead Recovery	88.58%	91.62%	92.11%
Zinc Recovery	76.43% *	83.76%*	62.89%*

* Includes the zinc in the lead concentrate for the last eleven months which had not been paid for in the past.

The concentrator operated for 356 days with an average daily through put of 290 tons. Recoveries for gold and silver showed a significant increase for the year while lead was down slightly. Major changes in the mill included the addition of a second bank of zinc cleaner cells, a second cleaner jig, and an alkaline — chlorination system for the treatment of tailings pond supernatant.

The average net price received for metals during the year was: Gold \$224.62 per troy ounce; silver \$6.19 per troy ounce; lead 29¢ per pound; and zinc 23¢ per pound.

The direct cost to produce an ounce of gold for the period was \$118.02 and \$3.25 for an ounce of silver.

METALS RECOVERED AND PAID FOR FROM PRODUCTION

	Tons	Troy oz. Gold	Troy oz. Silver	Lbs. Lead	Lbs. Zinc
Gold/Silver Bullion	—	18,600.54	12,041	—	—
Lead Concentrates	2865	13,232.97	131,361	1,812,859	664,891
Zinc Concentrates	2322	1,093.88	18,589	109,282	1,791,795
TOTALS	5187	32,927.39	161,991	1,922,141	2,456,686

Total diluted ore reserves as calculated by mine engineering staff as at April 30, 1979 from all categories were:

Tons	Gold Oz./Ton	Silver Oz./Ton	Lead %	Zinc %
215,000	0.35	0.83	2.36	3.32

By April 30, 1979 some 37,000 tons of mineable material had been outlined by diamond drilling below the 2800 level on the Warman Zone. This is being withheld from ore reserves until such time as the drill program is complete (now only 40%) and an economic feasibility is carried out for mining below 2800 level.

A total of 4,153 ft. of adit X-cut was driven in the year to reach the ore bearing structure on 2800 level with an additional 564 ft. of drifting done along the vein. Some 2065 ft. of raises and 1178 ft. of sub-drifts were driven between 2800 level and 3250 level to prepare ore blocks for production.

Work done to date has developed more ore between the above two levels on the Warman Zone than was previously carried on reserves and there are very positive indications that additional reserves can be outlined.

Costs per ton of ore milled for the various categories were: Operating costs, including indirect and administration — \$44.23, explor-

ation — \$0.78, interest charges — \$1.42, for a total cost of \$46.43.

A late spring, followed by a lengthy fire season, kept surface exploration to a minimum. Underground diamond drilling by Northair and Contract totalled 1279 ft.

A sizeable surface and underground diamond drill program resulted in expansion of ore reserves in the first 2 months of the present year. This vigorous program of drilling continues with excellent potential for finding additional ore reserves throughout the Warman, C and Discovery Zones.

Geological and engineering staff are busy preparing surface plans for an extensive surface program of trenching, mapping and sampling with diamond drilling to follow in the immediate mine area for the summer program.

All geological data available is being compiled on an area within an approximate radius of 7 miles of the mine to evaluate exploration potential for possible programs for this summer and the future.

M. P. Dickson, P. Eng.
Vice President of Operations

May 22, 1979

Balance Sheet as at 28 February 1979

(With comparative figures as at 28 February 1978)

ASSETS

Current

Cash and short-term bank deposits	\$ 845,131	\$ 216,403
Concentrate settlements receivable	990,796	897,077
Concentrate inventory	143,456	126,541
Supplies and sundry accounts receivable	265,054	73,473
	<u>2,244,437</u>	<u>1,313,494</u>

Property, Plant and Equipment

Plant and equipment, at cost	5,497,488	5,261,888
Less — Accumulated depreciation	3,363,077	2,395,658
	<u>2,134,411</u>	<u>2,866,230</u>
Mineral rights and deferred costs (Note 2)	2,778,529	2,397,587
	<u>4,912,940</u>	<u>5,263,817</u>

Other

121,842	76,504
<u>\$ 7,279,219</u>	<u>\$ 6,653,815</u>

Liabilities

Current

Bank demand loan	\$ —	\$ 1,800,000
Accounts payable and accrued liabilities	589,309	596,740
Agreements payable	9,315	95,704

598,624 2,492,444

Debenture Payable

— 721,297

Deferred Taxes on Income

1,091,080 199,750

1,689,704 3,413,491

Shareholders' Equity

Share Capital (Note 3)	3,782,134	3,307,939
Contributed Surplus	116,448	116,448
Retained Earnings (Deficit)	1,690,933	(184,063)

5,589,515 3,240,324

APPROVED ON BEHALF OF THE BOARD:

\$ 7,279,219 \$ 6,653,815

D. A. McLeod Director

John E. Millette Director

Statement of Income and Retained Earnings for the year ended 28 February 1979

(With comparative figures for the year ended 28 February 1978)

	1979	1978
Production	\$ 9,584,137	\$ 8,245,455
Operating Costs		
Mining, exploration and short-term development	2,638,120	2,164,242
Milling.....	959,934	714,917
Mine general and surface	673,531	1,527,814
Interest.....	146,581	432,895
Indirect and administrative.....	374,666	347,964
	<u>4,792,832</u>	<u>5,187,832</u>
Income, before depletion and depreciation	4,791,305	3,057,623
Income per share	0.90	0.60
Depletion and Depreciation	2,274,511	2,562,015
Income, before income taxes and other income	2,516,794	495,608
Gain on Forward Gold Sales	249,532	—
Income, before income taxes	2,766,326	495,608
Provision for Deferred Taxes on Income	891,330	199,750
Net Income for the Year	1,874,996	295,858
Net Income per Share	0.35	0.10
Retained earnings (deficit), beginning of year	(184,063)	(479,921)
Retained Earnings (Deficit) as at 28 February	\$ 1,690,933	\$ (184,063)

Statement of Changes in Financial Position for the year ended 28 February 1979

(With comparative figures for the year ended 28 February 1978)

	1979	1978
Source of Funds		
From operations		
Net income for the year	\$ 1,874,996	\$ 295,858
Adjustment for items not affecting working capital		
Depreciation	987,282	1,420,435
Depletion	1,287,229	1,141,580
Deferred income taxes	891,330	199,750
Interest	—	60,215
	5,040,837	3,117,838
Share capital	474,195	328,000
Long term debt	—	71,583
Sale of plant and equipment	17,420	64,937
Other assets — net	—	13,290
	5,532,452	3,595,648
Application of Funds		
Deferred development costs	1,668,171	100,677
Long term debt	721,297	146,383
Additions to plant and equipment	272,883	393,839
Other assets — net	45,338	—
	2,707,689	640,899
Increase in Working Capital	2,824,763	2,954,749
Working capital (deficit), beginning of year	(1,178,950)	(4,133,699)
Working Capital (Deficit) — 28 February	\$ 1,645,813	\$ (1,178,950)

Schedule of Administrative Costs for the year ended 28 February 1979

(With comparative figures for the year ended 28 February 1978)

	1979	1978
Management and office salaries	\$ 159,704	\$ 150,348
Taxes and licences.....	60,835	52,709
Travel and promotion.....	54,561	47,400
Office and telephone.....	45,060	35,521
Legal, accounting and audit	28,929	21,080
First aid and medical	16,237	13,000
Transfer agent fees	6,507	6,603
Shareholders' information and meetings	5,436	4,882
Sundry	7,359	16,421
Royalties refund.....	(9,962)	—
	<u>\$ 374,666</u>	<u>\$ 347,964</u>

AUDITORS' REPORT

To the Shareholders of Northair Mines Ltd. (N.P.L.)

We have examined the balance sheet of Northair Mines Ltd. (N.P.L.) as at 28 February 1979 and the statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at 28 February 1979 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

11 May 1979

Smith, Flynn, Staley
Chartered Accountants

Notes to Financial Statements

28 February 1979

1. SIGNIFICANT ACCOUNTING POLICIES

Concentrate Settlements Receivable and Concentrate Inventories

Concentrate settlements receivable and concentrate inventories are recorded at estimated net realizable value which is based on the most current information available with regards to weight, assays, metal prices and foreign exchange. In accordance with the terms of the sales contracts, final settlements are made at prices prevailing at a future date and the amounts eventually received by the company may vary from the amounts shown.

Mineral Rights and Deferred Costs

Mineral rights and deferred costs are carried at cost less depletion recorded to date. They are not intended to reflect present or future values.

Depletion of these costs is being provided on a unit of production method based on estimated recoverable reserves.

With the exception of costs incurred in connection with a major development program, all current exploration and development costs are being expensed when incurred.

Depreciation

With the exception of mobile equipment, depreciation of all plant and equipment is being provided on a unit of production method based on estimated recoverable reserves. Mobile equipment is being depreciated at the rate of 30% per annum on a reducing balance basis.

Taxes on Income

The company records income and resource taxes on the tax allocation basis. Under this method, taxes are determined from accounting income not taxable income. Differences arise when depletion and depreciation are reflected in different time periods for accounting purposes than for tax purposes. The tax effect of these timing differences is shown in the financial statements as deferred taxes on income.

2. MINERAL RIGHTS AND DEFERRED COSTS

	1979	1978
Balance		
beginning of year	\$ 2,397,587	\$ 3,438,490
Expenditures		
capitalized during year	<u>1,668,171</u>	<u>100,677</u>
	4,065,758	3,539,167
Depletion charged		
to operating costs	<u>1,287,299</u>	<u>1,141,580</u>
Balance - 28 February	<u>\$ 2,778,529</u>	<u>\$ 2,397,587</u>

3. SHARE CAPITAL

(a) Authorized capital is 6,000,000 shares of no par value

(b) Details of shares issued are as follows:

	Shares	Consideration
Issued for cash	4,164,900	\$ 3,367,269
Issued for rights	1,177,500	414,865
	<u>5,342,400</u>	<u>\$ 3,782,134</u>

(c) The following share options and warrants are outstanding as at 28 February 1979:

(i) Cumulative options granted to an officer and employee of the company exercisable during the period ended 1 June 1979 at \$1.90 per share	3,700
(ii) Share purchase warrants exercisable during the period ended 12 January 1982 at \$2.00 per share	259,300
	<u>263,000</u>

4. STATUTORY INFORMATION

During the period 1 March 1978 to 28 February 1979, \$265,755 was paid or credited to seven directors and senior officers as defined in the B.C. Companies Act (four of the seven so defined are mine personnel). Other than the foregoing, no remuneration has been paid to any director or senior officer.

